

**STATE OF CALIFORNIA**  
**DEPARTMENT OF INSURANCE**

**BULLETIN 97-5**  
(This bulletin replaces and supersedes  
Bulletins Nos. 90-3 and 92-9.)

**December 3, 1997**

**To: ALL LICENSED COMPANIES AND OTHER INTERESTED PERSONS**

**Subject: CREDIT IN ACCOUNTING AND FINANCIAL STATEMENTS ON  
ACCOUNT OF REINSURANCE CEDED**

**§ 1. AUTHORITY**

This bulletin is issued pursuant to the authority granted by California Insurance Code (the "Code") Section 922.8 which authorizes the Commissioner to issue a bulletin setting forth reasonable requirements for the allowance of reinsurance as an asset or deduction from liability consistent with California Insurance Code Sections 922.4 to 922.6, inclusive.

**§ 2. PURPOSE**

The purpose of this bulletin is to set forth substantive and procedural requirements that the Commissioner deems necessary to carry out the provisions of Sections 922.2 through 922.9 of the Code. The requirements of this bulletin are declared to be necessary and appropriate for the protection of ceding insurers and their policyholders in this state.

**§ 3. SEVERABILITY**

If any provision of this bulletin, or the application of the provision to any person or circumstance, shall be held invalid, the remainder of the bulletin, and the application of the provisions to persons or circumstances other than those to which it is held invalid, shall not be affected.

**§ 4. CREDIT FOR REINSURANCE CEDED TO ADMITTED INSURER**

In accordance with Section 922.4(a) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that was licensed in this state as of the date on which statutory financial statement credit for reinsurance is claimed.

**§ 5. CREDIT FOR REINSURANCE CEDED TO ACCREDITED REINSURER**

- (a) In accordance with Section 922.4(b) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer that is accredited as a reinsurer in this state as of the date on which statutory financial statement credit for reinsurance is claimed. A reinsurer seeking accreditation shall file with the Commissioner:
- (1) A properly executed Form AR-1 (attached as an exhibit to this bulletin);
  - (2) A certified copy of a certificate of authority or other acceptable evidence of compliance with Section 922.4(b)(1)(D) of the Code;
  - (3) The statement required by Section 922.4(b)(1)(F) of the Code;
  - (4) A copy of the reinsurer's:
    - (A) Annual financial statements for the past 3 years and all quarterly financial statements filed since the most recent annual statement, if any. The annual statements, including any amendments and NAIC required attachments, shall be signed and verified. Verification shall be made by oath of the reinsurer's principal executive officer or manager residing within the United States;
    - (B) Most recent examination report;
    - (C) Most recent independent audit report;
    - (D) Most recent 8-K, 10-K and 10-Q forms, if any, filed with the SEC by the applicant or any controlling person;
    - (E) Certificate of good standing from its state of domicile;
    - (F) Most recent holding company registration statement and any supplements thereto filed with its state of domicile, and,
    - (G) Most recent risk based capital report; and
  - (5) Other information or documentation as requested by the Commissioner pursuant to Section 922.4(b) of the Code.
- (b) An accredited reinsurer shall annually file updates of the documents required by subsections (a)(2), (a)(3), and (a)(4) of this Section, in order to establish continued eligibility for accreditation.

- (c) Pursuant to Section 922.4(b)(4) of the Code, the actual costs and expenses incurred by the Department to review a reinsurer's request for accreditation and subsequent reviews shall be charged to and collected from the requesting reinsurer. The requesting reinsurer shall provide the Department with a \$1,500 deposit in conjunction with the reinsurer's application for accreditation. Additional costs and expenses incurred by the Department in connection with the application shall be billed to the reinsurer.

**§ 6. CREDIT FOR REINSURANCE SECURED BY U.S. TRUST ACCOUNT**

- (a) In accordance with Section 922.4(c) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer which, as of any date on which statutory financial statement credit for reinsurance is claimed and thereafter for so long as credit for reinsurance is claimed, maintains a trust fund in an amount prescribed in Section 922.4(c) of the Code in a qualified United States financial institution for the payment of the valid claims of its U.S. domiciled ceding insurers, their assigns and successors in interest, and, pursuant to Section 922.4(e) of the Code, files with the Commissioner a properly executed Form AR-1 (attached as an exhibit to this bulletin).
- (b) For purposes of this bulletin, the term "liabilities" shall mean the assuming insurer's gross liabilities attributable to reinsurance ceded by United States domiciled insurers that are not otherwise secured by acceptable means, and shall include:
- (1) For business ceded by domestic insurers authorized to write either accident and health, or property and casualty insurance, or both:
    - (A) Losses and allocated loss expenses paid by the ceding insurer, recoverable from the assuming insurer;
    - (B) Reserves for losses reported and outstanding;
    - (C) Reserves for losses incurred but not reported;
    - (D) Reserves for allocated loss expenses; and
    - (E) Unearned premiums.
  - (2) For business ceded by domestic insurers authorized to write life, health and annuity insurance:

- (A) Aggregate reserves for life policies and contracts net of policy loans and net due and deferred premiums;
  - (B) Aggregate reserves for accident and health policies;
  - (C) Deposit funds and other liabilities without life or disability contingencies; and
  - (D) Liabilities for policy and contract claims.
- (c) Assets deposited in the trust shall be valued according to their fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States financial institution as defined in Section 922.7(a) of the Code, and investments of the type specified in this subsection (c), however, investments in or issued by an entity controlling, controlled by or under common control with either the grantor or beneficiary of the trust shall not exceed five percent (5 %) of total investments. No more than twenty percent (20%) of the total of the investments in the trust may be foreign investments authorized under Sections 6(c)(1)(E), 6(c)(3), 6(c)(6)(B) or 6(c)(7) of this bulletin, and no more than ten percent (10%) of the total of the investments in the trust may be securities denominated in foreign currencies. For purposes of applying the preceding sentence, a depository receipt denominated in United States dollars and representing rights conferred by a foreign security shall be classified as a foreign investment denominated in a foreign currency. The assets of a trust established to satisfy the requirements of § 922.4(c) of the Code shall be invested only as follows:
- (1) Government obligations that are not in default as to principal or interest, that are valid and legally authorized and that are issued, assumed or guaranteed by:
    - (A) The United States or by any agency or instrumentality of the United States;
    - (B) Any state of the United States;
    - (C) A territory, possession or other governmental unit of the United States;
    - (D) An agency or instrumentality of a government unit referred to in Sections 6(c)(1)(B) and 6(c)(1)(C) of this bulletin, if the obligations shall be by law (statutory or otherwise) payable, as to both principal and interest, from taxes levied or by law required to be levied or from adequate special revenues pledged or otherwise

appropriated or by law required to be provided for the purpose of making these payments, but shall not be obligations eligible for investment under this paragraph if payable solely out of special assessments on properties benefited by local improvements; or

- (E) The government of any other country that is a member of the Organization for Economic Cooperation and Development and whose government obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities

Valuation Office of the National Association of Insurance Commissioners;

- (2) Obligations that are issued in the United States, or that are dollar-denominated and issued in a non-U.S. market, by a solvent United States institution (other than an insurance company) or that are assumed or guaranteed by a solvent United States institution (other than an insurance company) and that are not in default as to principal or interest if the obligations:

- (A) Are rated A or higher (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the National Association of Insurance Commissioners, or if not so rated, are similar in structure and other material respects to other obligations of the same institution that are so rated;
- (B) Are insured by at least one authorized insurer (other than the investing insurer or parent, subsidiary or affiliate of the investing insurer) licensed to insure obligations in this state and, after considering the insurance, are rated AAA (or the equivalent) by a securities rating agency recognized by the Securities Valuation Office of the National Association of Insurance Commissioners; or
- (C) Have been designated as Class One or Class Two by the Securities Valuation Office of the National Association of Insurance Commissioners.

- (3) Obligations issued, assumed or guaranteed by a solvent non-United States institution chartered in a country that is a member of the Organization for Economic Cooperation and Development or obligations of U.S. corporations issued in a non-U.S. currency, provided that in either case the obligations are rated A or higher, or the equivalent, by a rating agency

recognized by the Securities Valuation Office of the National Association of Insurance Commissioners;

- (4) An investment made pursuant to the provisions of Sections 6(c)(1), 6(c)(2) or 6(c)(3) of this bulletin shall be subject to the following additional limitations:
  - (A) An investment in or loan upon the obligations of any one institution, other than an institution that issues mortgage-related securities, shall not exceed five percent (5 %) of the assets of the trust;
  - (B) An investment in any one mortgage-related security shall not exceed five percent (5 %) of the assets of the trust;
  - (C) The aggregate total investment in mortgage-related securities shall not exceed twenty-five percent (25 %) of the assets of the trust; and
  - (D) Preferred or guaranteed shares issued or guaranteed by a solvent United States institution are permissible investments if all of the institution's obligations are eligible as investments under Sections 6(c)(2)(A) and 6(c)(2)(C) of this bulletin, but shall not exceed two percent (2%) of the assets of the trust;
- (5) As used in this bulletin:
  - (A) "Mortgage-related security" means an obligation that is rated AA or higher (or the equivalent thereto) by a securities rating agency recognized by the Securities Valuation Office of the National Association of Insurance Commissioners and that either:
    - (i) represents ownership of one or more promissory notes or certificates of interest or participation in such notes (including any rights designed to assure servicing of, or the receipt or timeliness of receipt by the holders of such notes, certificates, or participation of amounts payable under, such notes, certificates or participation), which notes:
      - (aa) are directly secured by a first lien on a single parcel of real estate, including stock allocated to a dwelling unit in a residential cooperative housing corporation, upon which is located a dwelling or

mixed residential and commercial structure, or on a residential manufactured home as defined in 42 U.S.C.A. Section 5402(6), whether the manufactured home is considered real or personal property under the laws of the state in which it is located; and

(bb) were originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company, or similar institution that is supervised and examined by a federal or state housing authority, or by a mortgagee approved by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. Sections 1709 and 1715b, or, where such notes involve a lien on the manufactured home, by any such institution or by any financial institution approved for insurance by the Secretary of Housing and Urban Development pursuant to 12 U.S.C.A. section 1703; or

(ii) is secured by one or more promissory notes or certificates of deposit or participation in such notes (with or without recourse to the insurer thereof) and, by its terms, provides for payments of principal in relation to payments or reasonable projections of payments, or notes meeting the requirements of Sections 6(c)(5)(A)(I)(aa) and 6(c)(5)(A)(I)(bb) of this bulletin.

(B) "Promissory note", when used in connection with a manufactured home, shall also include a loan, advance or credit sale as evidenced by a retail installment sales contract or other instrument.

(6) Equity interests:

(A) Investments in common shares or partnership interests of a solvent United States institution are permissible if:

(i) Its obligations and preferred shares, if any, are eligible as investments under this subsection; and

(ii) The equity interests of the institution (except an insurance company) are registered on a national securities exchange, as provided in the Securities Exchange Act of 1934, 15

U.S.C. §§ 78a to 78kk or otherwise registered pursuant to that Act, and, if otherwise registered, price quotations for them are furnished through a nationwide automated quotations system approved by the National Association of Securities Dealers, Inc. A trust shall not invest in equity interests under this paragraph an amount exceeding one percent (1 %) of the assets of the trust even though the equity interests are so registered and are not issued by an insurance company;

- (B) Investments in common shares of a solvent institution organized under the laws of a country that is a member of the Organization for Economic Cooperation and Development, if
  - (i) All its obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the National Association of Insurance Commissioners; and
  - (ii) The equity interests of the institution are registered on a securities exchange regulated by the government of a country that is a member of the Organization for Economic Cooperation and Development;
- (C) An investment in or loan upon any one institution's outstanding equity interests shall not exceed one percent (1 %) of the assets of the trust. The cost of an investment in equity interests made pursuant to this paragraph, when added to the aggregate cost of other investments in equity interests then held pursuant to this paragraph, shall not exceed ten percent (10%) of the assets in the trust;
- (7) Obligations issued, assumed or guaranteed by a multinational development bank, provided the obligations are rated A or higher, or the equivalent, by a rating agency recognized by the Securities Valuation Office of the National Association of Insurance Commissioners;
- (8) Investment companies:
  - (A) Securities of an investment company registered pursuant to the Investment Company Act of 1940, 15 U.S.C. § 802, are permissible investments if the investment company:



- (i) Invests at least ninety percent (90%) of its assets in the types of securities that qualify as an investment under Sections 6(c)(1), (2) or (3) of this bulletin or that invest in securities that are determined by the Commissioner to be substantively similar to the types of securities set forth in Sections 6(c)(1), (2) or (3) of this bulletin; or
  - (ii) Invests at least ninety percent (90%) of its assets in the types of equity interests that qualify as an investment under Section 6(c)(6)(A) of this bulletin;
- (B) Investments made by a trust under this paragraph shall not exceed the following limitations:
  - (i) An investment in an investment company qualifying under subparagraph (A)(i) of this paragraph shall not exceed ten percent (10%) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall not exceed twenty-five percent (25 %) of the assets in the trust; and
  - (ii) Investments in an investment company qualifying under subparagraph (A)(ii) of this paragraph shall not exceed five percent (5 %) of the assets in the trust and the aggregate amount of investment in qualifying investment companies shall be included when calculating the permissible aggregate value of equity interests pursuant to Section 6(c)(6)(A) of this bulletin.
- (d) A specific security provided to a ceding insurer by an assuming insurer pursuant to Section 8 of this bulletin shall be applied, until exhausted, to the payment of liabilities of the assuming insurer to the ceding insurer holding the specific security prior to, and as a condition precedent for, presentation of a claim by the ceding insurer for payment by a trustee of a trust established by the assuming insurer pursuant to this section.
- (e) Pursuant to Section 922.4(c)(5) of the Code, the actual costs and expenses incurred by the department to review the trusts and subsequent amendments established or maintained pursuant to Section 922.4(c) of the Code shall be charged to and collected from the requesting reinsurer or group. The requesting reinsurer or group shall provide the department with a \$1,500 deposit in conjunction with the reinsurer's or group's request for review. Additional costs and expenses incurred by the department in connection with the review shall be billed to the reinsurer or group.

**§7 CREDIT FOR REINSURANCE REQUIRED BY LAW**

In accordance with Section 922.4(d) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer not meeting the requirements of Sections 922.4(a), (b) or (c) of the Code, but only as to the insurance of risks located in a jurisdiction where the reinsurance is required by the applicable law or regulation of that jurisdiction. As used in this section, "jurisdiction" means a state, district or territory of the United States.

**§8 CREDIT FOR REINSURANCE SECURED BY EXCLUSIVE TRUST**

- (a) In accordance with Section 922.5(a) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer, in an amount not exceeding the liabilities carried by the ceding insurer, to the extent of funds held in a trust, satisfactory to the Commissioner, for the exclusive benefit of the ceding insurer, under a reinsurance contract with such assuming insurer, as security for the payment of obligations under the reinsurance contract.
- (b) As used in Section 922.5 of the Code and this Section:
  - (1) "Beneficiary" means the entity for whose sole benefit the trust has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).
  - (2) "Grantor" means the entity that has established a trust for the sole benefit of the beneficiary. When established in conjunction with a reinsurance agreement, the grantor is the nonadmitted, unaccredited assuming insurer.
- (c) Required conditions:
  - (1) The trust agreement shall be entered into between the beneficiary, the grantor and a trustee which shall be a qualified United States financial institution as defined in Section 922.7(b) of the Code.
  - (2) The trust agreement shall create a trust account into which assets shall be deposited.
  - (3) All assets in the trust account shall be held by the trustee at the trustee's office in the United States.
  - (4) The trust agreement shall provide that:

- (A) The beneficiary shall have the right to withdraw assets from the trust account at any time, without notice to the grantor, subject only to written notice from the beneficiary to the trustee;
  - (B) No other statement or document is required to be presented in order to withdraw assets, except that the beneficiary may be required to acknowledge receipt of withdrawn assets; and
  - (C) It is not subject to any conditions or qualifications outside of the trust agreement.
- (5) The trust agreement shall be established for the sole benefit of the beneficiary.
- (6) The trust agreement shall require the trustee to:
- (A) Receive assets and hold all assets in a safe place;
  - (B) Determine that all assets are in such form that the beneficiary, or the trustee upon direction by the beneficiary, may whenever necessary negotiate any such assets, without consent or signature from the grantor or any other person or entity;
  - (C) Furnish to the grantor and the beneficiary a statement of all assets in the trust account upon its inception and at intervals no less frequent than the end of each calendar quarter;
  - (D) Notify the grantor and the beneficiary within ten (10) days, of any deposits to or withdrawals from the trust account;
  - (E) Upon written demand of the beneficiary, immediately take any and all steps necessary to transfer absolutely and unequivocally all right, title and interest in the assets held in the trust account to the beneficiary and deliver custody of the assets to the beneficiary; and
  - (F) Allow no substitutions or withdrawals of assets from the trust account, except on written instructions from the beneficiary, except that the trustee may, without the consent of but with notice to the beneficiary, upon call or maturity of any trust asset, withdraw such asset upon condition that the proceeds are paid into the trust account.

- (7) The trust agreement shall provide that at least thirty (30) days, but not more than forty-five (45) days, prior to termination of the trust account, written notification of termination shall be delivered by the trustee to the beneficiary.
  - (8) The trust agreement shall be made subject to and governed by the laws of this state.
  - (9) The trust agreement shall prohibit invasion of the trust corpus for the purpose of paying compensation to, or reimbursing the expenses of, the trustee.
  - (10) The trust agreement shall provide that the trustee shall be liable for its own negligence, wilful misconduct or lack of good faith.
  - (11) The trust agreement shall not contain references to any other agreements or documents except as provided in Section 8(d)(7) or Section 8(d)(8) of this bulletin.
- (d) Permitted conditions:
- (1) The trust agreement may provide that the trustee may resign upon delivery of a written notice of resignation, effective not less than ninety (90) days after the beneficiary and grantor receive the notice and that the trustee may be removed by the grantor by delivery to the trustee and the beneficiary of a written notice of removal, effective not less than ninety (90) days after the trustee and the beneficiary receive the notice, provided that no such resignation or removal shall be effective until a successor trustee has been duly appointed and approved by the beneficiary and the grantor and all assets in the trust have been duly transferred to the new trustee.
  - (2) The grantor may have the full and unqualified right to vote any shares of stock in the trust account and to receive from time to time payments of any dividends or interest upon any shares of stock or obligations included in the trust account. Any such interest or dividends shall be either forwarded promptly upon receipt to the grantor or deposited in a separate account established in the grantor's name.
  - (3) The trust agreement may provide that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the California Insurance Code or any

combination of the above; and may further provide that investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed five percent (5%) of total investments.

- (4) The trustee may be given authority to invest, and accept substitutions of, any funds in the account, provided that no investment or substitution shall be made without prior approval of the beneficiary, unless the trust agreement specifies categories of investments acceptable to the beneficiary and authorizes the trustee to invest funds and to accept substitutions which the trustee determines are at least equal in market value to the assets withdrawn and that are consistent with the restrictions in Section 8(e) of this bulletin.
- (5) The trust agreement may provide that the beneficiary may at any time designate a party to which all or part of the trust assets are to be transferred. Such transfer may be conditioned upon the trustee receiving, prior to or simultaneously, other specified assets.
- (6) The trust agreement may provide that, upon termination of the trust account, all assets not previously withdrawn by the beneficiary shall, with written approval by the beneficiary, be delivered over to the grantor.
- (7) Notwithstanding other provisions of this bulletin, when a trust agreement is established in conjunction with a reinsurance agreement covering risks other than life, annuities and accident and health, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:
  - (A) To pay or reimburse the ceding insurer for the assuming insurer's share under the specific reinsurance agreement regarding any losses and allocated loss expenses paid by the ceding insurer, but not recovered from the assuming insurer, or for unearned premiums due to the ceding insurer if not otherwise paid by the assuming insurer;
  - (B) To make payment to the assuming insurer of any amounts held in the trust account that exceed one hundred and two percent (102%) of the actual amount required to fund the assuming insurer's obligations under the specific reinsurance agreement; or

- (C) Where the ceding insurer has received notification of termination of the trust account and where any of the assuming insurer's obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the obligations and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution as defined in Section 922.7(b) of the Code apart from its general assets, in trust for such uses and purposes specified in subparagraphs (A) and (B) of this paragraph as may remain executory after such withdrawal and for any period after the termination date.
- (D) "Obligations" as used in this subsection means:
- (i) Reinsured losses and allocated loss expenses paid by the ceding company, but not recovered from the assuming insurer;
  - (ii) Reserves for reinsured losses reported and outstanding;
  - (iii) Reserves for reinsured losses incurred but not reported; and
  - (iv) Reserves for reinsured allocated loss adjustment expenses and unearned premiums.
- (8) Notwithstanding other provisions of this bulletin, when a trust agreement is established to meet the requirements of Section 922.5 of the Code in conjunction with a reinsurance agreement covering life, annuities or accident and health risks, where it is customary practice to provide a trust agreement for a specific purpose, the trust agreement may provide that the ceding insurer shall undertake to use and apply amounts drawn upon the trust account, without diminution because of the insolvency of the ceding insurer or the assuming insurer, only for the following purposes:
- (A) To pay or reimburse the ceding insurer for:
- (i) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of the policies, and

- (ii) The assuming insurer's share under the specific reinsurance agreement of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurer, under the terms and provisions of the policies reinsured under the reinsurance agreement:
  - (B) To pay to the assuming insurer amounts held in the trust account in excess of the amount necessary to secure the credit or deduction from liability for reinsurance taken by the ceding insurer, or
  - (C) Where the ceding insurer has received notification of termination of the trust and where any of the assuming insurer's obligations under the specific reinsurance agreement remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurers share of liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer, and deposit those amounts in a separate account, in the name of the ceding insurer in any qualified United States financial institution apart from its general assets, in trust for such uses and purposes specified in subparagraphs (A) and (B) of this paragraph as may remain executory after withdrawal and for any period after the termination date.
- (e) The reinsurance agreement secured by the trust account permitted under this Section shall require that assets deposited in the trust account shall be valued according to their current fair market value and shall consist only of cash in United States dollars, certificates of deposit issued by a United States bank and payable in United States dollars, and investments permitted by the California Insurance Code or any combination of the above; and shall further provide that investments in or issued by an entity controlling, controlled by or under common control with either the grantor or the beneficiary of the trust shall not exceed five percent (5%) of total investments.
- (f) A reinsurance agreement may contain provisions that:
- (1) Require the assuming insurer to enter into a trust agreement and to establish a trust account for the benefit of the ceding insurer, and specifying what the agreement is to cover.
  - (2) Require the assuming insurer, prior to depositing assets with the trustee, to execute assignments or endorsements in blank, or to transfer legal title to the trustee of all shares, obligations or any other assets requiring assignments, in order that the ceding insurer, or the trustee upon the

direction of the ceding insurer, may whenever necessary negotiate these assets without consent or signature from the assuming insurer or any other entity.

- (3) Require that all settlements of account between the ceding insurer and the assuming insurer be made in cash or its equivalent.
- (4) Stipulate that the assuming insurer and the ceding insurer agree that the assets in the trust account, established pursuant to the provisions of the reinsurance agreement, may be withdrawn by the ceding insurer at any time, notwithstanding any other provisions in the reinsurance agreement, and shall be utilized and applied by the ceding insurer or its successors in interest by operation of law, including without limitation any liquidator, rehabilitator, receiver or conservator of such company, without diminution because of insolvency on the part of the ceding insurer or the assuming insurer, only for the following purposes:
  - (A) To pay or reimburse the ceding insurer for:
    - (i) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurer, to the owners of policies reinsured under the reinsurance agreement because of cancellations of such policies; and
    - (ii) The assuming insurer's share of surrenders and benefits or losses paid by the ceding insurer pursuant to the provisions of the policies reinsured under the reinsurance agreement; and
    - (iii) Any other amounts necessary to secure the credit or deduction from liability for reinsurance taken by the ceding insurer.
  - (B) To make payment to the assuming insurer of amounts held in the trust account in excess of the amount necessary to secure the credit or deduction from liability for reinsurance taken by the ceding insurer.
- (5) Give the assuming insurer the right to seek approval from the ceding insurer to withdraw from the trust account all or any part of the trust assets and transfer those assets to the assuming insurer, provided:



(A) The assuming insurer shall, at the time of withdrawal, replace the withdrawn assets with other qualified assets having a market value equal to the market value of the assets withdrawn so as to maintain at all times the deposit in the required amount, or

(B) After withdrawal and transfer, the market value of the trust account is no less than one hundred and two percent (102%) of the required amount.

The ceding insurer shall not unreasonably or arbitrarily withhold its approval.

(6) Provide for the return of any amount withdrawn in excess of the actual amounts required for Section 8(f)(4) of this bulletin, and for interest payments at a rate not in excess of the prime rate of interest on the amounts held pursuant to Section 8(f)(4) of this bulletin.

(7) Permit the award by any arbitration panel or court of competent jurisdiction of:

(A) Interest at a rate different from that provided in Section 8(f)(6) of this bulletin,

(B) Court or arbitration costs,

(C) Attorney's fees, and

(D) Any other reasonable expenses.

(f) A trust agreement may be used to reduce any liability for reinsurance ceded to an unauthorized assuming insurer in financial statements required to be filed with this department in compliance with the provisions of this bulletin when established on or before the date of filing of the financial statement of the ceding insurer. Further, the reduction for the existence of an acceptable trust account may be up to the current fair market value of acceptable assets available to be withdrawn from the trust account at that time, but such reduction shall be no greater than the specific obligations under the reinsurance agreement that the trust account was established to secure.

(g) Notwithstanding the effective date of this bulletin, any trust agreement or underlying reinsurance agreement in existence prior to January 1, 1997, will continue to be acceptable until December 31, 1998, at which time the agreements will have to fully comply with this bulletin for the trust agreement to be acceptable.

- (h) The failure of any trust agreement to specifically identify the beneficiary as defined in Section 8(b) of this bulletin shall not be construed to affect any actions or rights which the Commissioner may take or possess pursuant to the provisions of the laws of this state.

**§ 9. CREDIT FOR REINSURANCE SECURED BY LETTER OF CREDIT**

- (a) In accordance with Section 922.5(b) of the Code, the Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer, in an amount not exceeding the liabilities carried by the ceding insurer, to the extent that security is provided in the form of a letter of credit satisfactory to the Commissioner.
- (b) The letter of credit shall be clean, irrevocable, unconditional and issued or confirmed by a qualified United States financial institution as defined in Section 922.7(a) of the Code. The letter of credit shall contain an issue date and expiration date and shall stipulate that the beneficiary need only draw a sight draft under the letter of credit and present it to obtain funds and that no other document need be presented. The letter of credit shall also indicate that it is not subject to any condition or qualifications outside of the letter of credit. In addition, the letter of credit itself shall not contain reference to any other agreements, documents or entities. As used in this section, "beneficiary" means the insurer for whose benefit the letter of credit has been established and any successor of the beneficiary by operation of law. If a court of law appoints a successor in interest to the named beneficiary, then the named beneficiary includes and is limited to the court appointed domiciliary receiver (including conservator, rehabilitator or liquidator).
- (c) The heading of the letter of credit may include a boxed section containing the name of the applicant/account holder (reinsurer), beneficiary's name and state of domicile, and other appropriate notations to provide a reference for the letter of credit. The boxed section shall be clearly marked to indicate that such information is for internal identification purposes only.
- (d) The letter of credit shall contain a statement to the effect that the obligation of the qualified United States financial institution under the letter of credit is in no way contingent upon reimbursement with respect thereto.
- (e) The term of the letter of credit shall be for at least one year and shall contain an "evergreen clause" that prevents the expiration of the letter of credit without due notice from the issuer. The "evergreen clause" shall provide for a period of no less than thirty (30) days notice prior to expiration date or nonrenewal.

- (f) The letter of credit shall state whether it is subject to and governed by the laws of this state or the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 500), or any successor publication, and all drafts drawn thereunder shall be presentable at an office in the United States of a qualified United States financial institution.
- (g) If the letter of credit is made subject to the Uniform Customs and Practice for Documentary Credits of the International Chamber of Commerce (Publication 500), or any successor publication, then the letter of credit shall specifically address and provide for an extension of time to draw against the letter of credit in the event that one or more of the occurrences specified in Article 17 of Publication 500, or any successor publication, occur.
- (h) The letter of credit shall be issued or confirmed by a qualified United States financial institution authorized to issue letters of credit, pursuant to Section 922.7(a) of the Code.
- (i) If the letter of credit is issued by a qualified United States financial institution authorized to issue letters of credit, other than a qualified United States financial institution as described in Section 9(h) of this bulletin, then the following additional requirements shall be met:
  - (1) The issuing qualified United States financial institution shall formally designate the confirming qualified United States financial institution as its agent for the receipt and payment of the drafts, and
  - (2) The "evergreen clause" shall provide for thirty (30) days notice prior to the expiration date for nonrenewal.
- (j) Reinsurance agreement provisions:
  - (1) The reinsurance agreement in conjunction with which the letter of credit is obtained may contain provisions that:
    - (A) Require the assuming insurer to provide letters of credit to the ceding insurer and specify what they are to cover.
    - (B) Stipulate that the assuming insurer and ceding insurer agree that the letter of credit provided by the assuming insurer pursuant to the provisions of the reinsurance agreement may be drawn upon at any time, notwithstanding any other provisions in the agreement, and shall be utilized by the ceding insurer or its successors in interest only for one or more of the following reasons:

- (i) To pay or reimburse the ceding insurer for:
  - (aa) The assuming insurer's share under the specific reinsurance agreement of premiums returned, but not yet recovered from the assuming insurers, to the owners of policies reinsured under the reinsurance agreement on account of cancellations of such policies;
  - (bb) The assuming insurer's share, under the specific reinsurance agreement, of surrenders and benefits or losses paid by the ceding insurer, but not yet recovered from the assuming insurers, under the terms and provisions of the policies reinsured under the reinsurance agreement; and
  - (cc) Any other amounts necessary to secure the credit or reduction from liability for reinsurance taken by the ceding insurer.
- (ii) Where the letter of credit will expire without renewal or be reduced or replaced by a letter of credit for a reduced amount and where the assuming insurer's entire obligations under the specific reinsurance remain unliquidated and undischarged ten (10) days prior to the termination date, to withdraw amounts equal to the assuming insurer's share of the liabilities, to the extent that the liabilities have not yet been funded by the assuming insurer and exceed the amount of any reduced or replacement letter of credit, and deposit those amounts in a separate account in the name of the ceding insurer in a qualified United States financial institution apart from its general assets, in trust for such uses and purposes specified in Section 9(j)(1)(B)(i) of this bulletin as may remain after withdrawal and for any period after the termination date.
- (C) All of the provisions of Section 9(j)(1) of this bulletin shall be applied without diminution because of insolvency on the part of the ceding insurer or assuming insurer.
- (2) Nothing contained in Section 9(j)(1) of this bulletin shall preclude the ceding insurer and assuming insurer from providing for:

- (A) An interest payment, at a rate not in excess of the prime rate of interest, on the amounts held pursuant to Section 9(j)(1)(B) of this bulletin; or
- (B) The return of any amounts drawn down on the letters of credit in excess of the actual amounts required for the above or any amounts that are subsequently determined not to be due.

#### **§ 10. CREDIT FOR REINSURANCE SECURED BY FUNDS WITHHELD**

The Commissioner shall allow credit for reinsurance ceded by a domestic insurer to an assuming insurer, in an amount not exceeding the liabilities carried by the ceding insurer, to the extent of unencumbered funds withheld by the ceding insurer under a reinsurance contract with the assuming insurer as security for the payment of obligations thereunder, provided such funds are held in the manner prescribed in Section 922.5(a) of the Code. Unencumbered funds withheld are those funds which are held solely in the name of and under the exclusive control of the ceding insurer; for example, funds held in an "escrow account" would not meet the requirements of the Code.

#### **§ 11. CREDIT FOR REINSURANCE OF FOREIGN CEDING INSURERS**

- (a) Credit for reinsurance may be denied a foreign ceding insurer upon a finding by the Commissioner that either the condition of the reinsurer, or the collateral or other security provided by the reinsurer, does not satisfy the credit for reinsurance requirements applicable to ceding insurers domiciled in California.
- (b) When the total credit for reinsurance with a single reinsurer exceeds 50% of the ceding insurer's capital and surplus, then the ceding insurer shall file, contemporaneously with the filing of its annual statement:
  - (1) a copy of the reinsurer's annual statements, examination report and independent audit report (as described in Section 5(a)(4)(A) and (B) and (C) of this bulletin), where credit is claimed on the basis that the reinsurer is either licensed in or accredited as a reinsurer in the ceding insurer's state of domicile; or
  - (2) a copy of the collateral or other security provided by the reinsurer.
- (c) A foreign ceding insurer shall provide all information and documentation requested to enable the Commissioner to establish to his satisfaction that the credit for reinsurance standards applicable to ceding insurers domiciled in California have been met. Where credit is claimed on the basis that the reinsurer is licensed in the foreign ceding insurer's state of domicile, the reinsurer must, in substance, meet the licensing standards of California. Where credit is claimed on

the basis that the reinsurer is accredited in the ceding insurer's state of domicile, the reinsurer must, in substance, meet the accreditation standards of California. Where credit is claimed on the basis of security in the form of a trust agreement, letter of credit, or funds withheld agreement, the security must, in substance, meet the standards for like security in California.

## **§ 12. TRANSFER OF RISK -- LIFE AND DISABILITY**

- (a) This section prescribes accounting and other requirements for admitted life and disability insurers and for admitted property and casualty insurers with respect to their disability business. Violation of these requirements results in a ceding insurer improperly reducing liabilities or establishing assets for reinsurance ceded, and, pursuant to Section 922.3 of the Code, the Commissioner shall not allow credit for such reinsurance.
- (b) This section shall not apply to assumption reinsurance, yearly renewable term reinsurance or to non-proportional reinsurance such as stop loss or catastrophe reinsurance.
- (c) No insurer subject to this section shall, for reinsurance ceded, reduce any liability or establish any asset in any financial statement filed with the Department if, by the terms of the reinsurance agreement, in substance or effect, any of the following conditions exist:
  - (1) Renewal expense allowances provided or to be provided to the ceding insurer by the reinsurer in any accounting period, are not sufficient to cover anticipated allocable renewal expenses of the ceding insurer on the portion of the business reinsured, unless a liability is established for the present value of the shortfall (using assumptions equal to the applicable statutory reserve basis on the business reinsured). Those expenses include commissions, premium taxes, and direct expenses including but not limited to billing, valuation, claims, and maintenance expected by the company at the time the business is reinsured.
  - (2) The ceding insurer can be deprived of surplus or assets at the reinsurer's option or automatically upon the occurrence of some event, such as the insolvency of the ceding insurer, except that termination of the reinsurance agreement by the reinsurer for non-payment of reinsurance premiums or other amounts due, such as modified coinsurance reserve adjustments, interest and adjustments on funds withheld, and tax reimbursements, shall not be considered to be such a deprivation of surplus or assets.

- (3) The ceding insurer is required to reimburse the reinsurer for negative experience under the reinsurance agreement, except that neither offsetting experience refunds against current and prior years' losses under the agreement nor payment by the ceding insurer of an amount equal to the current and prior years' losses under the agreement upon voluntary termination of in force reinsurance by that ceding insurer shall be considered such a reimbursement to the reinsurer for negative experience.

(Voluntary termination does not include situations where termination occurs because of unreasonable provisions which allow the reinsurer to reduce its risk under the agreement. An example of such a provision is the right of the reinsurer to increase reinsurance premiums or risk and expense charges to excessive levels forcing the ceding insurer to prematurely terminate the reinsurance treaty.)

- (4) The ceding insurer must, at specific points in time scheduled in the agreement or at the reinsurer's option, terminate or automatically recapture all or part of the reinsurance ceded.
- (5) The reinsurance agreement involves the possible payment by the ceding insurer to the reinsurer of amounts other than from income realized from the reinsured policies. For example, it is improper for a ceding company to pay reinsurance premiums, or other fees or charges to a reinsurer which are greater than the direct premiums collected by the ceding company.
- (6) The treaty is not of a form which transfers all of the significant risks inherent in the business being reinsured. The following table identifies, for a representative sampling of products or types of business, the risks which are considered to be significant. For products not specifically included, the risks determined to be significant shall be consistent with this table.

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### TABLE OF SIGNIFICANT RISKS

#### RISK CATEGORIES:

- 1 = Morbidity
- 2 = Mortality
- 3 = Lapse -- The risk that a policy will voluntarily terminate prior to the recoupment of any surplus strain experienced at issue of the policy.

- 4 = Credit Quality (C1) -- The risk that invested assets supporting the reinsured business will decrease in value. The main hazards are that assets will default or that there will be a decrease in earning power. It excludes market value declines due to changes in interest rate.
- 5 = Reinvestment (C3) -- The risk that interest rates will fall and funds reinvested (coupon payments or monies received upon asset maturity or call) will therefore earn less than expected. If asset durations are less than liability durations, the mismatch will increase.
- 6 = Disintermediation (C3) -- The risk that interest rates rise and policy loans and surrenders increase or maturing contracts do not renew at anticipated rates of renewal. If asset durations are greater than liability durations, the mismatch will increase. Policyholders will move their funds into new products offering higher rates. The company may have to sell assets at a loss to provide for these withdrawals.

+ = significant  
0 = insignificant

LTC = Long Term Care Insurance  
LTD = Long Term Disability Insurance

TYPE	RISK CATEGORY					
	1	2	3	4	5	6
Health Insurance - other than LTC/LTD	+	0	+	0	0	0
Health Insurance - LTC/LTD	+	0	+	+	+	0
Immediate Annuities	0	+	0	+	+	0
Single Premium Deferred Annuities	0	0	+	+	+	+
Flexible Premium Deferred Annuities	0	0	+	+	+	+
Guaranteed Interest Contracts	0	0	0	+	+	+
Other Annuity Deposit Business	0	0	+	+	+	+
Single Premium Whole Life	0	+	+	+	+	+
Traditional Non-Par Permanent	0	+	+	+	+	+
Traditional Non-Par Term	0	+	+	0	0	0
Traditional Par Permanent	0	+	+	+	+	+
Traditional Par Term	0	+	+	0	0	0
Adjustable Premium Permanent	0	+	+	+	+	+



Indeterminate Premium Permanent	0	+	+	+	+	+
Universal Life Flexible Premium	0	+	+	+	+	+
Universal Life Fixed Premium	0	+	+	+	+	+
Universal Life Fixed Premium (dump-in premiums allowed)	0	+	+	+	+	+

- 
- (7) (A) The credit quality, reinvestment, or disintermediation risk is significant for the business reinsured and the ceding company does not [other than for the classes of business excepted in (7)(B)] either transfer the underlying assets to the reinsurer or legally segregate such assets in a trust or escrow account or otherwise establish a mechanism satisfactory to the Commissioner which legally segregates, by contract or contract provision, the underlying assets.
- (B) Notwithstanding the requirements of this subsection, the assets supporting the reserves for the following classes of business, and any classes of business which do not have a significant credit quality, reinvestment, or disintermediation risk, may be held by the ceding company without segregation of such assets:

Health Insurance - LTC/LTD  
 Traditional Non-Par Permanent  
 Traditional Par Permanent  
 Adjustable Premium Permanent  
 Indeterminate Premium Permanent  
 Universal Life Fixed Premium (no dump-in premiums allowed)

The associated formula for determining the reserve interest rate adjustment must use a formula which reflects the ceding company's investment earnings and incorporates all realized and unrealized gains and losses reflected in the statutory statement. The following is an acceptable formula:

$$\text{RATE} = \frac{2 * (I + CG)}{X + Y - I - CG}$$

Where: I is the net investment income  
(Exhibit 2, Line 16, Column 7)

CG is capital gains less capital losses  
(Exhibit 4, Line 10, Column 4)

X is the current year cash and invested assets  
(Page 2, Line 11, Column 4)  
plus investment income due and accrued  
(Page 2, Line 17, Column 4)  
less borrowed money  
(Page 3, Line 22, Column 1)

Y is the same as X but for the prior year

Note: Line and column references are for the 1996  
Annual Statement.

- (8) Settlements are made less frequently than quarterly or amounts receivable from the reinsurer are not paid in cash within ninety (90) days of the settlement date.
- (9) The ceding insurer is required to make representations or warranties not reasonably related to the business being reinsured.
- (10) The ceding insurer is required to make representations or warranties about the future performance of the business being reinsured.
- (11) The reinsurance agreement is entered into for the principal purpose of producing significant surplus aid for the ceding insurer, typically on a temporary basis, while not transferring all of the significant risks inherent in the business reinsured and, in substance or effect, the expected potential liability to the ceding insurer remains basically unchanged.
- (d) Notwithstanding subsection (c) of this section, the Commissioner may allow such reserve credit or establishment of such asset as the Commissioner considers appropriate. Such allowance shall not be deemed approval of the reinsurance treaty nor shall it be considered an indication that reinsurance credit may be allowed for other similar treaties.

(e) Any agreement entered into after the effective date of this bulletin which involves the reinsurance of business issued prior to the effective year of the agreement, along with any subsequent amendments thereto, shall be filed by the ceding company with the Commissioner within 30 days from its date of execution if such ceding company is domiciled in this state. In the case of an agreement which was entered into prior to the effective date of this bulletin but was subsequently amended on or after the effective date of this bulletin, such agreement and amendment shall also be filed within 30 days from the date of execution of the amendment if such amendment added business issued prior to the effective year of the amendment and if the ceding company is domiciled in this state.

- (1) Each such filing shall include data detailing the financial impact of the transaction. The ceding insurer's appointed actuary shall consider this bulletin and any applicable actuarial standards of practice when determining the proper credit to take in financial statements filed with this Department. The appointed actuary should maintain adequate documentation and be prepared upon request to justify the inclusion of credit in the financial statement.
- (2) Any increase in surplus net of federal income taxes resulting from arrangements described in this subsection shall be identified separately on the insurer's statutory financial statement as a surplus item (Change in surplus as a result of reinsurance in the Capital and Surplus Account, page 4 of the Annual Statement) and recognition of the surplus increase as income shall be reflected on a net of tax basis in the Summary of Operations (Commissions and expense allowances on reinsurance ceded line, page 4 of the Annual Statement) as earnings emerge from the business reinsured.

[For example, on the last day of calendar year N, company XYZ pays a \$20 million initial commission and expense allowance to company ABC for reinsuring an existing block of business. Assuming a 34% tax rate, the net increase in surplus at inception is \$13.2 million (\$20 million - \$6.8 million) which is reported on the "Change in surplus as a result of reinsurance" line in the Capital and Surplus account. \$6.8 million (34% of \$20 million) is reported as income on the "commissions and expense allowances on reinsurance ceded" line of the Summary of Operations.

At the end of year N+1 the business has earned \$4 million. ABC has paid \$5 million in profit and risk charges in arrears for the year and has received a \$1 million experience refund. Company ABC's annual statement would report \$1.65 million (66% of (\$4 million - \$1 million - \$5 million) up to a maximum of \$13.2 million) on the "Commissions and expense allowance on reinsurance ceded" line of the Summary of

Operations, and -\$1.65 million on the "Change in surplus as a result of reinsurance" line of the Capital and Surplus account. The experience refund would be reported separately as a Miscellaneous income item in the Summary of Operations.]

- (f) No reinsurance agreement or amendment to any agreement may be used to reduce any liability or to establish any asset in any statutory financial statement filed with this Department, unless the agreement, amendment, or a binding letter of intent has been duly executed by both parties no later than the "as of date" of the financial statement.
  - (1) In the case of a letter of intent, a reinsurance agreement or an amendment to a reinsurance agreement must be executed within a reasonable period of time, not exceeding ninety (90) days from the execution date of the letter of intent, in order for credit to be granted for the reinsurance ceded.
  - (2) The reinsurance agreement shall contain provisions which provide that:
    - (A) The agreement shall constitute the entire agreement between the parties with respect to the business being reinsured thereunder and that there are no understandings between the parties other than as expressed in the agreement; and
    - (B) Any change or modification to the agreement shall be null and void unless made by amendment to the agreement and signed by both parties.

### **§ 13. CONTRACTS AFFECTED**

All new and renewal reinsurance transactions entered into after January 1, 1997 shall conform to the requirements of the Code and this bulletin if credit is to be given to the ceding insurer for such reinsurance. In addition, all life and disability reinsurance agreements, regardless of their date of execution, shall conform to the requirements of Section 12(b), (c) and (d) of this bulletin if credit is to be given to the ceding insurer for such reinsurance.

### **§ 14. FILING OFFICES**

The initial filing for accreditation under Section 5 of this bulletin shall be submitted in duplicate, accompanied by the \$1500 deposit, to:

California Department of Insurance  
Legal Division, Corporate Affairs Bureau  
45 Fremont Street, 24th Floor  
San Francisco, CA 94105

All other filings required by this bulletin shall be submitted to:

California Department of Insurance  
Financial Analysis Division  
300 South Spring Street, South Tower  
Los Angeles, CA 90013

## **§ 15. AMENDMENTS**

This bulletin may, for good cause, be amended, supplemented or superseded from time to time, in the exercise of the Commissioner's sound discretion and in a manner consistent with the requirements of Section 922.8 of the Code.

## **§ 16. QUESTIONS**

For questions regarding application of this bulletin to life and health reinsurance agreements contact:

Ann Tang  
Financial Analysis Division  
California Department of Insurance  
300 South Spring Street  
Los Angeles, CA 90013  
(213) 346-6339

For questions regarding application of this bulletin to property and casualty reinsurance agreements contact:

Nelia Yuzon  
(Same address as above.)  
(213) 346-6481

For questions regarding Section 12 of this bulletin, contact:

Robert Conover  
(Same address as above.)  
(213) 346-6229



**CHUCK QUACKENBUSH**  
Insurance Commissioner

**FORM AR-1**

**CERTIFICATE OF ASSUMING INSURER**

I, \_\_\_\_\_, \_\_\_\_\_  
(name of officer) (title of officer)

of \_\_\_\_\_, the assuming insurer under a  
(name of assuming insurer)

reinsurance agreement with one or more insurers domiciled in California, hereby certify that

\_\_\_\_\_ ("Assuming Insurer"):  
(name of assuming insurer)

1. Submits to the jurisdiction of any court of competent jurisdiction in California for the adjudication of any issues arising out of the reinsurance agreement, agrees to comply with all requirements necessary to give such court jurisdiction, and will abide by the final decision of such court or appellate court in the event of an appeal. Nothing in this paragraph constitutes or should be understood to constitute a waiver of Assuming Insurer's rights to commence an action in any court of competent jurisdiction in the United States, to remove an action to a United States District Court, or to seek a transfer of a case to another court as permitted by the laws of the United States or of any state in the United States. This paragraph is not intended to conflict with or override the obligation of the parties to the reinsurance agreement to arbitrate their disputes if such an obligation is created in the agreement.

2. Designates the Insurance Commissioner of California as its lawful attorney upon whom may be served any lawful process in any action, suit or proceeding arising out of the reinsurance agreement instituted by or on behalf of the ceding insurer.

3. Submits to the authority of the Insurance Commissioner of California to examine its books and records and agrees to bear the expense of any such examination.

4. Submits with this form a current list of insurers domiciled in California reinsured by Assuming Insurer and undertakes to submit additions to or deletions from the list to the Insurance Commissioner at least once per calendar quarter.

Date: \_\_\_\_\_  
(Assuming Insurer)

By \_\_\_\_\_ (officer)  
\_\_\_\_\_ (title)